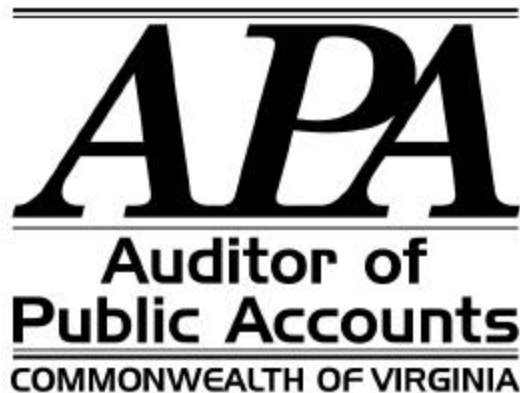


**THE VIRGINIA STATE BAR
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the Virginia State Bar for the year ended June 30, 2002, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the internal accounting systems of the Virginia State Bar;
- no matters involving internal control and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

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AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

The Virginia State Bar (the Bar) is an administrative agency of the Supreme Court of Virginia and the 75-member Bar Council is the governing body. The Bar's primary mission is the regulation, improvement, and education of members of the legal profession. All persons practicing law in Virginia must be members of the Virginia State Bar. In addition to other responsibilities, the Bar initiates and prosecutes lawyer disciplinary actions. The Bar received approximately 3,965 complaints during the year and sanctioned 393 attorneys.

The Bar records most of its financial operating activities on the Commonwealth's Accounting and Reporting System (CARS) and maintains separate, internal records for the Administration and Finance Fund and the Clients' Protection Fund.

CARS Activity

For fiscal year 2002, revenue totaled \$8.8 million while expenses totaled \$8 million. Attorney registration fees accounted for \$7 million or 80 percent of total revenues. Other sources of revenue included referral fees, education program fees, section dues, and collection of back dues. Payroll accounted for \$5 million or 63 percent of operating expenses. The remaining expenses are primarily contractual services for printing, computer system design and development, legal services, postal services, travel, and telecommunications.

Excess of Revenues over Expenses Fiscal Year 2002

Revenues:	
Registration fees	\$7,030,989
Other revenue	<u>1,727,992</u>
Total revenue	<u>8,758,981</u>
Expenses:	
Personal services	5,029,698
Contractual services	2,164,745
Supplies and materials	81,718
Transfer payments	68,824
Rent and other charges	466,394
Equipment	<u>195,911</u>
Total expenses	<u>8,007,290</u>
Excess of Revenues over Expenses	<u>\$ 751,691</u>

(Source: Commonwealth Accounting and Reporting System)

In prior years, expenses have exceeded revenue causing the Bar to place operational reliance on its cash reserve. In efforts to address the operational deficit, the Supreme Court of Virginia approved a dues increase of \$81 for active members and an increase of \$40 for associate members, effective July 1, 2000. As a result, operating cash reserves increased from \$347,087 on July 1, 2000 to \$2,265,091 at June 30, 2002. The Bar plans to use the dues increase to maintain its cash reserve balance and fund any reoccurring costs related to the Professional Regulation Department expansion including additional office space rental and

personnel. In addition, the increase in dues will continue to fund the development of a new management and financial information system, which will increase the capabilities of its current management system, plus add an accounting component to maintain the Bar's accounting records including the Administration and Finance Fund and the Clients' Protection Fund. On July 1, 2002 the Bar implemented the accounting component of the new management and financial information system and plans to implement the management component during fiscal year 2004. Total project costs as of June 30, 2002 were \$301,951. Any revenues in excess of expenses go to the Bar's cash reserve account.

	FY 2001 Actual	FY 2002 Actual	FY 2003 Projected*	FY 2004 Projected*
Operating Revenue:	\$8,459,667	\$8,758,981	\$8,950,000	\$9,075,000
Less: Operating Expenses	7,208,493	8,007,290	8,202,329	8,505,000
Net transfers and change in suspense deposits	<u>7,289</u>	<u>(92,150)</u>	<u>(252,671)</u>	<u>(270,000)</u>
Contributions to (from) operating cash balance	1,258,463	659,541	495,000	300,000
Add: Beginning operating reserve cash balance	<u>347,087</u>	<u>1,605,550</u>	<u>2,265,091</u>	<u>2,760,091</u>
Ending operating reserve cash balance	1,605,550	2,265,091	2,760,091	3,060,091
Administrative and Finance reserve cash balance	<u>221,788</u>	<u>225,888</u>	<u>208,000</u>	<u>214,500</u>
Total reserve cash balance	<u>\$1,827,338</u>	<u>\$2,490,979</u>	<u>\$2,968,091</u>	<u>\$3,274,591</u>

NOTE: All amounts are on a cash basis.

*Projected amounts do not include Grant Revenues and Expenses

Administration and Finance Fund

The Administration and Finance Fund accounts for certain meeting revenues and expenses related to the Council, Executive Committee, Annual and Midyear Meetings, and other official functions of the State Bar. The Bar's annual and midyear meetings' registration fees generate the Administration and Finance Fund's revenues and the Fund pays for the meetings according to the rules of the Supreme Court. During fiscal year 2002, the Fund received \$109,646 in meeting and registration fees, and paid \$109,979 in related expenses. As of June 30, 2002, the fund balance was \$185,927.

Clients' Protection Fund

The Virginia State Bar is the trustee for the Clients' Protection Fund that compensates clients for injuries or losses resulting from the dishonest conduct of a Bar member. The Fund originally received a portion of the member dues and member contributions. Currently, the Fund's main sources of revenue include interest on investments and reimbursements from attorneys for client settlement payments. During fiscal year 2002, the Clients' Protection Fund collected \$170,449 in interest income and reimbursements from attorneys and disbursed \$85,711 in settlements. As of June 30, 2002, the Clients' Protection Fund had a fund balance of \$2,984,727.

Affiliated Parties

The Bar transfers court-collected legal aid filing fees and amounts appropriated from the General Fund of the Commonwealth to the Legal Services Corporation of Virginia to provide civil legal services for needy Virginians. Monthly, the Department of Accounts reviews Circuit Court deposits to determine the amounts available. Then, the Bar disburses this amount from a special revenue fund. During fiscal year 2002, the Bar transferred \$1.8 million from these court fees to the Legal Services Corporation. Additionally, the Bar received \$2,145,000 million in General Fund appropriations of which the Bar transferred \$2,095,000 million to the Legal Services Corporation and \$50,000 to the Community Tax Law Project.

The Bar maintains a close relationship with the Virginia Capital Representation Resource Center, a separately incorporated, not-for-profit corporation with its own board. The Center offers assistance or consultation to death-sentenced inmates and defendants charged with or convicted of a federal or state capital crime in Virginia. The Bar received \$470,000 in state appropriations that it transferred to the Center during fiscal year 2002.

March 31, 2003

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Virginia State Bar** for the year ended June 30, 2002. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Virginia State Bar's accounting records, review the adequacy of the Bar's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Bar's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues	Expenditures
Cash Receipts	Payroll

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Bar's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Bar's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable,

but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Virginia State Bar properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Virginia State Bar records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System, except for the information for the Administrative and Finance Fund and the Clients' Protection Fund, which came from the Bar's accounting records.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 1, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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VIRGINIA STATE BAR
Richmond, Virginia

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Jean Patricia Dahnk, President-Elect

Michael Andrew Glasser, Immediate Past President

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